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FAVORABLE FACTORS INFLUENCE CANADIAN PACIFIC OUTLOOK

MONTREAL - A variety of favorable factors will influence Canadian Pacific's diverse transportation, natural resource and manufacturing activities in 1977.

"The moderate rate of growth forecast for the Canadian economy and the probability of some increase in international trade improve the prospects of the transportation sector," says the company's 1976 annual report released today.

"The resource and other activities of CP Investments, which contribute the major portion of the company's earnings, would also benefit from any upward movement in the domestic, and world, economy. It is expected that there will be less unfavorable impact on CPI from labor disruptions than in 1976 and companies in the CPI group that sell in foreign currencies will do better if the value of the Canadian dollar remains lower than last year."

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The company's optimistic outlook follows a year of improved overall earnings despite uneven results from its various lines of business. Some activities produced substantially higher earnings and some substantially lower earnings.

"The lackluster performance of the American economy disappointed expectations that vigorous recovery in the U.S. would provide stimulation to the Canadian economy," the report says.

"The rather halting growth that occurred instead, did little to help Canadian producers cope with a worrisome combination of high costs and weak markets. For the most part, business profits did not provide much encouragement for making new investment. The most positive features of the year were a welcome moderation in the rate of inflation and some reduction in the range and scale of labor disruptions."

The company had consolidated net income in 1976 of $190.4 million. This was an increase of $15.5 million, or 22 cents per ordinary share, over 1975. Dividends on the ordinary shares, at 86 cents, were restored to their 1974 level.

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"The diversified nature of the company's interests was a key factor in its better 1976 performance," the report says.

Rail, oil and gas and miscellaneous income accounted for the largest gains in earnings. There were sizeable decreases in income from metal and coal mining and from iron and steel. Container shipping results were better but earnings from tanker and bulk carrier operations were substantially lower. Logging and lumber, real estate and telecommunications had better results, hotels made less money and airline operations incurred a larger loss. CPI's investment income improved over 1975.

Developments in 1976 and early this year could have a major impact on CP Rail's future operations.

The Snavely Commission report on the costs of transporting grain by rail concluded that the railways suffer substantial losses carrying export grain, even on a variable cost basis. "Now that an independent authority has established a basis for determining the size of the losses, it remains for the government to decide the manner in which the railways are to recover them," the report says.

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The government announced during 1976 that it intends to pay the full cost of inter-city passenger losses once the basic inter-city passenger network is in place. At present, losses on these services are borne 80 per cent by the government and 20 per cent by the railways.

Early in 1977 an act to amend the National Transportation Act and the Railway Act was introduced in parliament. Among other things, the act sets some new objectives for transportation policy in Canada and establishes a new concept of maximum rates. "Both changes lead in the direction of rejecting the market mechanism and substituting for it rate-making by government," the report says.

CP Transport's express division started a new venture in 1976 to handle small packages. Initial results have been encouraging and this specialized market will be developed this year. The trucking divisions will concentrate on improved marketing and continued tight expense control. The bulk and specialized trucking division expects the acquisition of additional equipment and more stable labor conditions in its markets in western Canada to improve profitably.

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CP Air's prospects for 1977 are clouded by the fact that growth in airline traffic is expected to continue at a low rate and that revenue yields will continue to be inadequate. On the cost side, the effects of manpower reductions, the suspension of services on selected routes and the rescheduling of flights to meet market conditions are all expected to contribute to better results.

There are no signs of a vigorous upturn in North Atlantic trade and CP Ships expects container rate levels to continue under pressure in 1977. Whatever growth in income can be achieved will be through selective market development.

The outlook for Canadian Pacific (Bermuda) Limited remains uncertain. Recovery in markets for dry cargo ships depends largely on economic growth in the U.S., Japan and Europe. However, the substantial surplus of crude oil tanker tonnage is unlikely to be worked off for some years.

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PanCanadian Petroleum carried out a successful exploration and development program in southern Alberta in 1976. In the United States, the company acquired interests in the Gulf of Alaska and the east coast outer continental shelf. Preparations are under way to drill offshore Greenland in mid-1977.

Cominco Ltd.'s new ammonia-urea complex south of Calgary was coming on stream at the end of the year. The Rubiales zinc-lead mine in Spain was expected to begin production in the first quarter of 1977.

The Great Lakes Paper Company, Limited began operation of its new kraft pulp mill in November, marking completion of a diversification and expansion program that began in 1973. Pacific Logging Company Limited was faced with over-supply in world markets for pulp which resulted in excess supplies of pulp chips and pulp logs.

Various factors contributed to the lower earnings recorded by The Algoma Steel Corporation, Limited. They included equipment problems at the steelworks, the re-purchase of seamless tube inventories upon the takeover by Algoma of its own tube marketing, increases in costs that could not be fully recovered from price increases, and a less favorable product mix.

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Marathon Realty Company Limited acquired shopping centres in British Columbia and Quebec, purchased an office building in Toronto and acquired sites for future office complex developments in British Columbia and suburban Toronto.

CP Hotels opened the Frankfurt Plaza Hotel in Germany and signed a management contract for a hotel in Curaçao, Netherland Antilles. In Canada, restaurants were opened in the Royal Bank Plaza in Toronto and construction began on a hotel and adjoining flight kitchen at the Calgary International Airport.

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